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C O N F I D E N T I A L ANKARA 000316

SIPDIS

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TAGS: [ENRG](#) [EPET](#) [PGOV](#) [PREL](#) [TU](#)  
SUBJECT: SCENESETTER FOR 5TH US-TURKEY ENERGY WORKING GROUP  
MEETING

REF: A. ANKARA 195  
[1](#)B. ANKARA 127

Classified By: DCM Doug Silliman for reasons 1.4 (b,d).

[1](#)1. (C) In preparation for the U.S.-Turkey Energy Working Group meeting to be held in Washington on March 1, we would like to update you on where our relationship with Turkey stands, where Turkey's relationships with other key countries stand, and how these relationships are affecting energy issues.

WHAT TO RAISE:

-- We realize that the current political environment poses challenges to negotiations with the Azeris on Shah Deniz, but we urge you to continue push toward an agreement. (paras 3-5)

-- The U.S. commitment to Iraq remains strong, as does our interest in cooperating with you to help develop Iraq's energy sector. (paras 6-7)

-- The U.S. has a sincere interest in having Turkey choose the best possible technology to meet its needs in future solicitations for nuclear power generation. (para 8)

WATCH OUT FOR:

-- Claims that Iraqi gas can replace Azeri for the Nabucco project. While this may be possible at some point, there is as yet no Iraqi gas that is definitely available for export in the time horizon needed to finance the Nabucco project. (paras 6-7)

-- Claims that Turkey must pursue the option of expanding its natural gas dealings with Iran, even if Iran is not the GOT's preferred option as a source or transit state for Turkmen gas. (paras 9-11)

[1](#)2. (C) With the exception of the nuclear plant deal with Russia, and despite a flurry of visits to various countries, the Turks have made little progress on energy affairs since the last Energy Working Group (EWG) meeting in December 2009. Politics, both domestic and international, appear to play an increasingly significant role in energy decisions--or reluctance to make decisions. Three of the GOT's top areas of foreign policy concern -- Armenia/Azerbaijan, Iran, and Iraq -- have direct connections to energy, but there is no indication that increased Turkish diplomatic efforts in these countries have led to any progress on the energy front.

Turkey-Armenia, and Azerbaijan

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¶3. (C) Mindful of the Turkish public's sympathies with their "cousins" in Azerbaijan and the parliamentary opposition's desire to make political hay by criticizing Turkey-Armenia reconciliation, the government has been unwilling to seek ratification of the Turkey-Armenia protocols without some progress on Nagorno-Karabakh. That progress is not forthcoming and, though we refuse to accept linkage of the protocols to the Minsk Process, the former's failure would likely damage, if not derail, the latter.

¶4. (C) We believe that, absent something the Turks can define as progress on Nagorno-Karabakh, or a wink for Aliyev, Erdogan could not get all his own MPs, let alone the opposition, to vote to ratify the protocols. If Turkey does not move forward on the protocols, Turkey and Azerbaijan may look for ways to reaffirm a strong, mutual relationship and energy deals could be fast-tracked. However, a deterioration of U.S.-Turkey relations following any failure of the Turkey-Armenia reconciliation process could reinforce Russia's energy relationship with Turkey, to the detriment of the Southern Corridor and Turkey's own interest in reducing its over-dependence on Russia for energy.

¶5. (C) For now, Turkey-Azerbaijan negotiations on Shah Deniz gas continue but are seeing minimal progress. On February 3, Energy Minister Yildiz told the Ambassador the parties had reached agreement on price for Shah Deniz I gas but had not agreed on Shah Deniz II price or volumes, or on transit fees (reftel A). The Turks' perspective on the negotiations has not changed: they believe they have made reasonable offers to the Azeris and are doing all they can to move the process forward. They also believe politics related to the Armenia

protocols, and not commercial concerns, are preventing the Azeris from reaching a final agreement.

Iraq

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¶6. (C) In FM Davutoglu's words: "Iraq is an existential issue for Turkey." From the USG's perspective, Turkey has been, by far, the most constructive of Iraq's neighbors in contributing to its stability. Last October, Erdogan led a delegation of eight of his ministers to Baghdad where they signed nearly 50 MoUs and agreements that laid legal foundations for cooperation on counter-terrorism, commerce, hydrocarbons trade, transportation infrastructure construction, health care, and water management. As they have made clear to us at prior EWG meetings, the Turks are eager to work with us to help develop Iraq's energy sector as a key element of the country's economic stability.

¶7. (C) Turkish companies' interest in the Iraqi energy sector remains strong, though no Turkish company has succeeded in obtaining a gas export license from Iraq or import license from Turkey, and the one Turkish company exporting oil from Iraq has yet to be paid by Baghdad for its services. The GOT continues to push the idea that Iraq should be a primary source of gas for Nabucco, though there is little indication Iraq will be able to provide suitable volumes in the necessary timeframe, especially as the Hydrocarbons Law and other necessary legislation on revenue sharing and the Iraqi Oil Ministry and state hydrocarbons company are delayed until after elections and the formation of a new government.

Future Nuclear Power Plant Projects

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¶8. (C) Yildiz also told the ambassador the GOT still plans to build a second nuclear power plant in Sinop, which they will open for bids. He said they have formed a team to work on regulatory, safety, and other aspects of nuclear power. Members of the team are in touch with relevant U.S. agencies, but Yildiz said they would also welcome an opportunity to send a group on a USTDA orientation visit on peaceful nuclear power generation.

Iran

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¶9. (C) Turkey remains profoundly fearful of the collateral damage to its economy that could result from sanctions or an Iranian decision to retaliate by throttling back its hydrocarbons exports to Turkey. Turkey imports 36 percent of its oil from Iran and roughly 11 percent of its natural gas (2008 figures). If Iran were to cut off that supply, some Turks could grow cold in their homes and angry at their government.

¶10. (C) Hoping to forestall sanctions, Foreign Minister Davutoglu has repeatedly attempted to mediate a compromise between the Iranians and the world community, most recently on a February 16th visit to Tehran. We have mildly discouraged his shuttle and telephone diplomacy, but his efforts have not resulted in a real shift in Iranian policy.

¶11. (C) The GOT also continues to negotiate with Iran for Turkish Petroleum Company (TPAO) to develop two blocks of the South Pars gas field and it continues to explore the possibility of importing Turkmen gas through Iran. However, neither of these pursuits is moving forward quickly. TPAO GM Mehmet Uysal has been very downbeat on reaching agreement on South Pars. He has been careful to note that TPAO has not signed any agreement with Iran, that TPAO would make a report to the GOT in February on South Pars, but that the GOT would make the decision on whether to continue. No significant developments have arisen regarding transit of Turkmen gas to Turkey via Iran since the three governments announced their mutual interest in such an arrangement in early January in Turkmenistan (reftel B).

Russia

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¶12. (C) One shift that has occurred in Turkey's energy affairs since the December EWG meeting is the re-promising of Turkey's first nuclear power plant project to Russia. In a January 3 meeting with the ambassador, Yildiz confirmed the project would be given to Russia through an intergovernmental agreement (the legal equivalent of a treaty that would allow

the deal to proceed without any public tender). In other energy matters with Russia -- the Samsun-Ceyhan oil pipeline, possible refinery construction, Southstream -- talks continue but with no changes or milestones of note in recent months.

Domestic Energy Issues

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¶13. (C) Little has changed since December on domestic energy issues. In February, the Privatization Administration accepted bids on another four electricity distribution regions. The winning companies are now working through the full approval process. Analysts now expect that incentives for solar energy will be dropped from the renewable energy bill before it passes due to continued objections from Deputy PM Babacan over the cost. We have heard no estimates, however, of when the legislation will be passed. The natural gas law also remains stalled. Ibrahim Arinc, an advisor at the Ministry of Energy (MENR), told us the law and restructuring of the State Pipelines Company (BOTAS) is a priority for the ministry, but he expects no movement on the law until at least the second half of 2010. The quarterly review of the price of natural gas was scheduled for February, and we expected a price increase permit back payment of higher-priced Shah Deniz I gas already delivered over the past two years. PM Erdogan said he personally would announce any price increases, but there has been no announcement of a price change. We suspect PM Erdogan is wary of announcing a gas price increase amid the other issues now challenging his popularity and with elections approaching.

¶14. (C) Also due to domestic politics, it appears a split has developed between Erdogan and Yildiz in recent months and Erdogan has become directly involved in decision making on a

growing number of energy matters. As the political rivalry between Erdogan and Gul has grown, many political analysts name Yildiz as "a Gul man." Energy Undersecretary Kilci, who will attend the March 1 EWG meeting, is generally considered to be "Erdogan's man" at MENR. He also is the primary proponent in the ministry for breaking up BOTAS.  
Jeffrey

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